

**SCIENCE HILL INDEPENDENT
SCHOOL DISTRICT**

AUDITED FINANCIAL STATEMENTS

for the year ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Science Hill Independent Schools
Science Hill, Kentucky 42553

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Science Hill Independent Schools as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 3 through 6, budgetary comparison information and schedules of District's proportionate share of net pension liabilities and analysis and schedules of required contributions on pages 37 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated November 1, 2017, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Barry D. Daulton, CPA, PSC

Somerset, Kentucky

November 1, 2017

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
Science Hill, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
For the year ended June 30, 2017
(Unaudited)

Management of the Science Hill Independent School District (District) provides to readers and users of the accompanying financial statements an analysis and overview presentation of the Board's financial activities for the year ended June 30, 2017. Readers and users are encouraged to consider the information presented herein in conjunction with the audited financial statements and supplementary information contained within this report.

Financial Highlights

The beginning unreserved general fund balance for the District was \$ 622,876.

The District's outstanding bond principal is \$2,405,081 at the end of fiscal year 2017.

The majority of district revenues were derived from state sources (74%). Regular instruction, student support services, instructional support services and school and district administration account for (79%) of the District's expenditures. The District's remaining expenditures include pupil transportation (4%), maintenance and operations (9%) and debt service (7%).

The District's unrestricted operating fund (General Fund) had \$2,531,467 in revenues, excluding on-behalf payments from the Commonwealth. Those revenues consist mainly of ad valorem taxes, SEEK funding and utility tax receipts.

District-Wide Financial Statements

The accompanying district-wide financial statements are designed to provide readers and users with a generally broad descriptive overview of the Board's financial activities. The statements are similar in nature to private-sector (non-governmental) statements.

The Statement of Net Position contains information on all Board assets and liabilities. The difference between these two amounts is reported as net position. When considered historically, increases or decreases in net position may provide a general indication of overall improvement or deterioration of the District's financial condition. Net position reflects the District's investment in capital assets (land, buildings, improvements, vehicles, furniture and equipment) less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to students and are not available for future spending. Because the capital assets themselves cannot be used to liquidate the related liabilities, the resources needed to repay the debt must be provided from other sources.

In the Statement of Activities, changes in net position for the most recent fiscal year are presented. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Outlined in these financial statements are functions of the Board which are supported by local taxation and governmental activities. Governmental activities include, but are not limited to, instruction, support services, plant operation and maintenance and student transportation. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

Fund Financial Statements

Fund financial statements present a related group of accounts which maintain resources for a specific activity or objective. The MUNIS system is a mandated uniform system and chart of accounts used by all Kentucky public school districts. Use of fund accounting ensures compliance with finance-related statutory requirements. Board funds are separated into three categories; governmental, proprietary and fiduciary. Fiduciary (or trust) funds, commonly known as activity funds, aid in student education and support. Fiduciary funds are support by outside activities such as fund-raising and ticket sales. The district has no proprietary funds other than food service operations. Governmental funds report all other Board activities.

Notes to Financial Statements

Additional information necessary to better understand the district-wide financial statements is presented in the notes to financial statements on pages 19 through 35.

	<u>Condensed Comparative Data</u>	
	<u>FY 2016</u>	<u>FY 2017</u>
General fund revenues	\$ 3,309,946	\$ 3,230,656
General fund expenses	3,256,342	3,264,874
Cash (district-wide)	712,123	838,705
Land, building and fixed assets, net	5,219,764	4,906,058
Bond obligations	2,599,278	2,405,081
Fund balance	789,945	827,331

District-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2,669,201 as of June 30, 2017. This reflects a decrease of \$39,532 from 2016 to 2017.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for

future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

<u>Net Position for the period ending</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Current Assets	875,835	829,764
Noncurrent Assets	4,892,733	5,219,674
Deferred Outflows	319,415	192,099
Total Assets and Deferred Outflows	6,087,983	6,241,537
Current Liabilities	203,825	194,197
Noncurrent Liabilities	3,343,208	3,315,159
Deferred Inflows	14,106	23,448
Total Liabilities and Deferred Inflows	3,561,139	3,532,804
Net Position		
Investment in Capital Assets (net of debt)	2,630,009	2,620,396
Restricted Fund balance	167,069	167,069
Unrestricted Fund Balance	(127,877)	(78,732)
Total Net Position	2,669,201	2,708,733
Governmental Revenues	4,079,165	3,901,912
Business Type Revenues	324,782	346,514
Total Revenues	4,403,947	4,248,426
Governmental Expenses	4,123,517	3,717,635
Business Type Expenses	319,962	497,268
Total Expenses	4,443,479	4,214,903
Change in Net Position	(39,532)	33,523
Net Position Beginning	2,708,733	2,675,210
Net Position Ending	2,669,201	2,708,733

General Fund Revenue/Expenditures

The majority of the total General Fund revenue was derived from state revenue (77.72%). The greatest amount of revenue (55.13%) was expended for instruction. Other significant expenditures were district administration (11.84%), plant operation and management (11.04%), instructional staff support which includes school libraries and district-wide instructional support staff (2.66%), school administrative support (4.12%), and student support services which includes health services, attendance services and guidance counseling (7.06%).

Special Revenue Fund Revenue/Expenditures

The majority (51.08%) of the Special Revenue's revenue was derived from state sources with federal revenue making up (48.92%). The largest expenditure for the fund was for instruction, which was (79.16%) of the fund's total expenditures. Student support services was (6.84%) of the total expenditures.

Capital Outlay Fund and Building Fund Revenue/Expenditures

The Capital Outlay Fund's revenue is received from the state funding program (SEEK). The Building Fund receives revenue from both state funding and local taxes. During this year the majority of these funds were transferred to the debt service fund for paying on bonds sold in previous years for new and renovated facilities. This year the state allowed the district to use a portion of Capital Outlay funds for approved operation expenses that would have been funded through General Fund.

Debt Service Fund Revenue/Expenditures

The Debt Service Fund is used for paying debt service on bonds sold for new and renovated facilities. The fund receives a majority of its revenue from transfers from other funds primarily the Capital Outlay and Building Funds.

Food Service Fund Revenue/Expenditures

The School Food Service Fund is an enterprise fund, which receives revenue from federal (78.4%), state (8.6%) and local (13.1%) sources. Expenditures for this fund are for food service staff, food, supplies and equipment.

Financial Management

Interested readers and users, taxpayers, citizens and creditors are encouraged to contact Board administration with questions regarding this report or requests for additional information. The comments should be directed to Jimmy Dyehouse, Superintendent or Jamey Tilley, Director of Business Operations at (606) 423-3341. The District mailing address is 6007 North Highway 27, Science Hill, Kentucky 42553.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - DISTRICT WIDE
June 30, 2017

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 805,595	\$ 33,110	\$ 838,705
Accounts receivable	21,736		21,736
Inventories for consumption		15,394	15,394
Capital assets:			
Land	51,625		51,625
Land improvements, net of deprec	47,181		47,181
Other capital assets, net of depreciation	4,807,252	142,357	4,949,609
			-
TOTAL ASSETS	\$ 5,733,389	\$ 190,861	\$ 5,924,250
DEFERRED OUTFLOWS			
Deferred outflows related to pension expense	267,722	51,693	319,415
TOTAL DEFERRED OUTFLOWS	\$ 267,722	\$ 51,693	\$ 319,415
TOTAL ASSETS AND DEFERRED OUTFLOW	\$ 6,001,111	\$ 242,554	\$ 6,243,665
LIABILITIES			
Short-term liabilities			
Accounts payable	\$ 4,658	\$	\$ 4,658
Long-term liabilities			
Due or payable within one year			
Bond obligations	199,167		199,167
Due or payable after one year			
Bond obligations	2,205,914		2,205,914
Net pension liability - CERS	953,239	184,055	1,137,294
TOTAL LIABILITIES	\$ 3,362,978	\$ 184,055	\$ 3,547,033
DEFERRED INFLOWS			
Deferred inflows related to pension expense	11,823	2,283	14,106
TOTAL DEFERRED INFLOWS	11,823	2,283	14,106
TOTAL LIABILITIES AND DEFERRED INFLO	\$ 3,374,801	\$ 186,338	\$ 3,561,139
NET POSITION			
Net investment in capital assets	2,500,977	142,357	2,643,334
Restricted for:			
Sick leave	167,069		167,069
Unrestricted	(41,736)	(86,141)	(127,877)
TOTAL NET POSITION	\$ 2,626,310	\$ 56,216	\$ 2,682,526
TOTAL LIABILITIES AND NET POSITION	\$ 6,001,111	\$ 242,554	\$ 6,243,665

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
for the year ended June 30, 2017

FUNCTION/PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES
Governmental activities						
Instructional	\$ 2,254,398	\$	\$ 502,544	\$	\$ (1,751,854)	\$
Student support services	266,557				(266,557)	(1,751,854)
Staff support services	94,342				(94,342)	(266,557)
District administration	388,221				(388,221)	(94,342)
School administration	134,485				(134,485)	(388,221)
Business support services	133,182				(133,182)	(134,485)
Plant operation and maintenance	444,401				(444,401)	(133,182)
Student transportation	162,320				(162,320)	(444,401)
Community service	35,775				(35,775)	(162,320)
Facility acquisition/construction						(35,775)
Pension expense(revenue)	94,420				(94,420)	
Debt service	102,091			226,179	124,088	(94,420)
Total governmental activities	4,110,192		502,544	226,179	(3,381,469)	(3,381,469)
Business-type activities						
Food service	319,962	40,074	251,491			(28,397)
Total business-type activities	319,962	40,074	251,491			(28,397)
Total school district	\$ 4,430,154	\$ 40,074	\$ 754,035	\$ 226,179	\$ (3,381,469)	(3,409,866)
General revenues:						
Taxes						
State aid - formula grants					749,508	749,508
Investment earnings					2,511,020	2,538,522
Fund transfers					3,338	5,111
Miscellaneous					12,990	12,990
Pension revenue					73,586	73,666
Total general and special revenues					3,350,442	3,383,659
Change in net position					(31,027)	(26,207)
Net position - July 1, 2016					2,657,337	2,708,733
Net position - June 30, 2017					\$ 2,626,310	\$ 2,682,526

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2017

	GENERAL FUND	SPECIAL REVENUE	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 805,595	\$ -	\$ -	\$ 805,595
Accounts receivable	21,736	-	-	21,736
TOTAL ASSETS	\$ 827,331	\$ -	\$ -	\$ 827,331
LIABILITIES AND FUND BALANCES				
Accounts payable	4,658	-	-	4,658
TOTAL LIABILITIES	4,658	-	-	4,658
FUND BALANCE				
Restricted for:				
Accrued sick leave	167,069	-	-	167,069
Unassigned	655,604	-	-	655,604
TOTAL FUND BALANCES	822,673	-	-	822,673
TOTAL LIABILITIES AND FUND BALANCES	\$ 827,331	\$ -	\$ -	\$ 827,331

The accompanying notes are an integral part of these statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE DISTRICT-WIDE STATEMENT OF NET POSITION**

June 30, 2017

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT
OF NET POSITION ARE DIFFERENT BECAUSE:

Total governmental fund balance		\$ 822,673
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets	8,266,202	
Accumulated depreciation	<u>(3,360,144)</u>	4,906,058
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long term liabilities at year end consist of:		
Bonds payable		(2,405,081)
Net pension liability - CERS and related inflows / outflows		<u>(697,340)</u>
Total net position - governmental		<u>\$ 2,626,310</u>

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2017

	GENERAL FUND	SPECIAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues				
Taxes	\$ 642,712	\$ -	\$ 106,796	\$ 749,508
Earnings on investments	3,338	-	-	3,338
State sources	2,511,020	256,717	226,179	2,993,916
Federal sources	-	245,827	-	245,827
Other sources	73,586	-	-	73,586
Total revenues	3,230,656	502,544	332,975	4,066,175
Expenditures				
Instructional	1,799,909	402,569	-	2,202,478
Student support services	230,533	34,791	-	265,324
Staff support services	86,965	1,043	-	88,008
District administration	386,605	-	-	386,605
School administration	134,485	-	-	134,485
Business support services	119,563	13,619	-	133,182
Plant operation/maintenance	360,510	-	-	360,510
Student transportation	123,006	20,777	-	143,783
Community service	-	35,775	-	35,775
Debt service	23,298	-	272,990	296,288
Total expenditures	3,264,874	508,574	272,990	4,046,438
Excess (deficit) of revenues over expenditures	(34,218)	(6,030)	59,985	19,737
Other financing sources (uses):				
Operating transfers in	74,835	7,890	271,777	354,502
Operating transfers out	(7,890)	(1,860)	(331,762)	(341,512)
Total other financing sources (uses)	66,945	6,030	(59,985)	12,990
Net change in fund balances	32,727	-	-	32,727
Fund balances July 1, 2016	789,945	-	-	789,945
Fund balances June 30, 2017	\$ 822,672	\$ -	\$ -	\$ 822,672

The accompanying notes are an integral part of these statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

June 30, 2017

Amounts reported for governmental activities in the statement of net position are different because:

Net changes - governmental funds:	\$ 32,727
Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay and disposals for the year.	(163,531)
District pension contributions are reported as expenditures in the governmental funds when made but are reported as deferred outflows in the Statement of Net Position because the reported Net Pension Liability is measured a year before pension expense.	
Change in net pension liability, pension expense, and related deferred inflows and outflows	(94,420)
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	
Principal paid	<u>194,197</u>
Changes in net position - governmental funds	<u>\$ (31,027)</u>

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2017

	<u>CAPITAL OUTLAY</u>	<u>BUILDING FUND</u>	<u>CONSTRUCTION FUND</u>	<u>TOTAL</u>
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
TOTAL ASSETS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES				
TOTAL LIABILITIES	-	-	-	-
FUND BALANCES				
Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2017

	<u>CAPITAL OUTLAY</u>	<u>BUILDING FUND</u>	<u>DEBT SERVICE</u>	<u>TOTAL NON-MAJOR GOV'T FUNDS</u>
REVENUES				
Taxes	\$ -	\$ 106,796	\$ -	\$ 106,796
State sources	<u>37,572</u>	<u>187,394</u>	<u>1,213</u>	<u>226,179</u>
Total revenues	37,572	294,190	1,213	332,975
EXPENDITURES				
Debt service	<u>-</u>	<u>-</u>	<u>272,990</u>	<u>272,990</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>272,990</u>	<u>272,990</u>
Excess (deficit) of revenues over expenditures	<u>37,572</u>	<u>294,190</u>	<u>(271,777)</u>	<u>59,985</u>
Other financing sources (uses):				
Operating transfers out	(37,572)	(294,190)	-	(331,762)
Operating transfers in			<u>271,777</u>	<u>271,777</u>
Total other financing sources (uses)	<u>(37,572)</u>	<u>(294,190)</u>	<u>271,777</u>	<u>(59,985)</u>
Net change in fund balance	-	-	-	-
Fund balance July 1, 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance June 30, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2017

	ENTERPRISE FUNDS FOOD SERVICE
ASSETS	
Current assets	
Cash and cash equivalents	\$ 33,110
Accounts receivable	-
Inventories for consumption	<u>15,394</u>
Total current assets	48,504
Noncurrent assets	
Buildings and improvements	243,882
Furniture and equipment	104,263
Accumulated depreciation	<u>(205,788)</u>
Total noncurrent assets	<u>\$ 142,357</u>
TOTAL ASSETS	<u>\$ 190,861</u>
DEFERRED OUTFLOWS	
Deferred outflows related to pension expense	51,693
TOTAL DEFERRED OUTFLOWS	<u>\$ 51,693</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 242,554</u>
LIABILITIES	
Total current liabilities	\$ -
Total noncurrent liabilities	-
Net pension liability - CERS	<u>184,055</u>
TOTAL LIABILITIES	<u>\$ 184,055</u>
DEFERRED INFLOWS	
Deferred inflows related to pension expense	2,283
TOTAL DEFERRED INFLOWS	<u>\$ 2,283</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>\$ 186,338</u>
NET POSITION	
Invested in assets, net of debt	142,357
Unrestricted	<u>(86,141)</u>
TOTAL NET POSITION	<u>\$ 56,216</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 242,554</u>

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
for the year ended June 30, 2017

	ENTERPRISE FUNDS
	FOOD SERVICE
OPERATING REVENUES	
Lunchroom sales	\$ 40,154
Total operating revenues	40,154
OPERATING EXPENSES	
Food service operations	319,962
Total operating expenses	319,962
Operating income (loss)	(279,808)
NONOPERATING REVENUES (EXPENSES)	
Interest on investments	1,773
Federal grants	251,491
State grants	27,502
Fund transfers	-
Net pension revenue (expense)	3,862
Total nonoperating revenues	284,628
Change in net position	4,820
Net position July 1, 2016	51,396
Net position June 30, 2017	\$ 56,216

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
for the year ended June 30, 2017

Cash flows from operating activities:

Cash received from lunchroom sales	\$ 40,154
Cash received from federal and state reimbursements	278,993
Cash payments to employees for services	(140,061)
Cash payments to suppliers	(162,962)
Operating transfers	<u>(12,991)</u>

Net cash provided by operating activities	3,133
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Cash flows from investing activities

Interest Income	<u>1,773</u>
-----------------	--------------

Net cash provided by investing activities	<u>1,773</u>
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Net increase in cash equivalents	4,906
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Cash and cash equivalents July 1, 2016	<u>28,204</u>
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Cash and cash equivalents June 30, 2017	<u><u>\$ 33,110</u></u>
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**Reconciliation of Operating Income to Net Cash
Provided by Operating Activities:**

Operating income	\$ (279,808)
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Non-operating revenue	278,993
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Depreciation	7,727
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**Effect of Increases and Decreases in Current
Assets and Liabilities:**

Accounts receivable	
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Inventory	<u>(3,779)</u>
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Net cash provided by operating activities	<u><u>\$ 3,133</u></u>
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Schedule of non-cash transactions

Donated commodities	<u><u>\$ 20,994</u></u>
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The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
June 30, 2017

	<u>Student Activity Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 20,092</u>
TOTAL ASSETS	<u><u> 20,092</u></u>
LIABILITIES	
Due to student groups	<u> 20,092</u>
TOTAL LIABILITIES	<u><u>\$ 20,092</u></u>

The accompanying notes are an integral part of these statements.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Science Hill Board of Education (Board), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Science Hill Independent School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, as Board members are elected by the public and have decision-making authority, the power to designate management and the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all the funds and account groups relevant to the operation of the Science Hill Independent School District. The financial statements presented herein do not include funds of groups and organizations which, although associated with the school system, have not originated within the Board itself such as booster organizations, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

The accounting policies of the Science Hill Independent School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts and generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB).

District-Wide and Fund Financial Statements

The statement of net position and the statement of activities are district-wide financial statements. They report information on all of the District's nonfiduciary activities with interfund activities removed. Governmental activities include programs supported primarily by taxes, state funding and allocations and other intergovernmental revenues.

Fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary and fiduciary. Because the resources in the fiduciary funds cannot be used for District operations, they are not included in the district-wide statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description along with the restrictions associated with each class of funds are as follows:

I. Governmental Fund Types

- A. The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use.
- B. The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balance are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Federal Financial Assistance included in this report. Accounts receivable in the Special Revenue Fund represent amounts due to the District through various grant agreements. Conversely, deferred revenues represent funds received by the District not yet spent under grant agreements.
- C. Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the district's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the Kentucky School Facilities Construction Commission's funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

3. The Technology Fund accounts for the Kentucky Education Technology System (KETS) allocation and local district matching funds restricted for the purchase of technology consistent with the District's approved technology plan.

II. Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

III. Proprietary Funds (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts for in-kind contribution of commodities from the USDA are recorded only in the proprietary Statement of Revenues, Expenses, and Changes in Fund Balance.

IV. Fiduciary Fund Type

The Activity Fund consists of Agency funds and accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

V. Property Taxes

The District's property taxes are levied each year on the assessed value listed as of the prior January 1 for all real and business tangible property located in the District. Tax rates assessed were 65.5 cents per one hundred dollars of assessed value for real estate and tangible personal property. Motor vehicle taxes are assessed at 63.3 cents per one hundred dollars of assessed value. Property taxes collected are recorded as revenues in the fund for which they were levied.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than GAAP. During the budgetary process, revenues are projected in cash amounts to be received and expenditures are projected in cash amounts to be paid. Under GAAP, revenues and expenditures are recorded when susceptible to accrual.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The district-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary and fiduciary funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until they are actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Cash and Cash Equivalents

The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased, with the exception of the Proprietary Funds, which record inventory using the accrual basis of accounting.

Encumbrances

Encumbrances are reported as a reservation of the fund balance. They are not reported as disbursements until paid.

Payroll

District employees are paid once monthly throughout the calendar year. Payroll checks for the summer months were processed prior to June 30, 2017. The cash balances on June 30, 2017 have been reduced by the outstanding payroll checks.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fund Balances

Restricted fund balances arise from external constraints (debt covenants, regulations, constitutional provisions, etc.) Committed fund balances are imposed by formal actions of the Board. Assigned fund balances are intended by the Board to be used for specific purposes, but are not formally restricted or committed. Unassigned fund balances are the residual amounts that are neither restricted, committed nor assigned for any specific purpose.

NOTE B - CASH AND CASH EQUIVALENTS

At year end, the carrying amount of the District's cash and cash equivalents was \$ 972,349. Carrying amounts do not reflect deposits in transit or outstanding checks. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance, with the remainder covered by collateral held by the pledging banks' trust departments in the District's name.

Cash and cash equivalents at June 30, 2017 exclusive of activity and debt service funds, consisted of the following:

Cumberland Security Bank	Operating Account	\$ 838,695
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NOTE C - BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Science Hill Independent School District and the Kentucky School Facilities Construction Commission.

The District, through the General Fund, including utility taxes and the SEEK Capital Outlay Fund, is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Science Hill Independent School District Finance Corporation and the Kentucky School Facilities Construction Commission to construct school facilities. The District has an option to purchase

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2017

NOTE C - BONDED DEBT AND LEASE OBLIGATIONS, continued

the property under lease at any time by retiring the bonds then outstanding.

At July 1, 2016 total indebtedness amounted to \$ 2,599,278. With no additions to long-term debt and timely principal and interest reductions, indebtedness at June 30, 2017 totaled \$ 2,405,081. The tables below set forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues and the addition and deduction of long-term debt for the current year.

Year	2006R		2007		2011		Annual Totals
	Principal	Interest	Principal	Interest	Principal	Interest	
2018	50,000	20,145	149,167	71,677			290,989
2019	55,000	18,071	154,135	66,009			293,215
2020	55,000	15,899	164,102	60,152			295,153
2021	50,000	13,825	174,068	53,916			291,809
2022	55,000	11,751	179,033	47,301			293,085
2023	60,000	9,480	183,995	40,409			293,884
2024	65,000	7,011	188,957	33,325			294,293
2025	70,000	4,345	193,917	26,050			294,312
2026	75,000	1,481	198,875	18,584			293,940
2027			283,832	10,928			294,760
	<u>\$535,000</u>	<u>\$102,008</u>	<u>\$ 1,870,081</u>	<u>\$428,351</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,935,440</u>

Science Hill Independent School District
Addition and Deduction for Long Term Debt
June 30, 2017

	Beginning Balance 7/1/2016	Plus Additional Debt	Less Principal Payments	Ending Balance 6/30/2017
Bond Issue				
2006R	545,000	-	(10,000)	535,000
2007	1,959,278	-	(89,197)	1,870,081
2011	95,000	-	(95,000)	-
	<u>2,599,278</u>	<u>-</u>	<u>(194,197)</u>	<u>2,405,081</u>

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2017

NOTE D - RETIREMENT PLANS

Kentucky Teacher's Retirement

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System (CERS) covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System (KTRS) covers positions requiring teaching certification or otherwise requiring a college degree.

General Information About the County Employees Retirement System (CERS)

Plan description – Employees whose positions do not require beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provision of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement administers CERS and has authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that included financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov>.

Benefits provided – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years' service or 65 year old
	Reduced retirement	At least 5 years of service and 55 years old At least 25 years of service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years' service and 65 years old Or age 57+ and sum of service years plus age = 87
	Reduced retirement	At least 10 years' service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years' service and 65 years old Or age 57+ and sum of service years plus age = 87
	Reduced retirement	Not available

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2017

NOTE D – RETIREMENT PLANS, continued

Cost of living adjustments are provided at the discretion of the Kentucky General Assembly. Retirement is based on a factor of the number of years of service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years of service is required for death benefits prior to retirement and the employees must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay, and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years of service is required for nonservice-related disability benefits.

Contributions – Required contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

The District matches at a rate of 17.76% of the employee's total covered compensation. The District's matching contributions total \$95,518 for the year ended June 30, 2017.

General Information about the Teachers' Retirement System of the Commonwealth of Kentucky (KTRS)

Plan description – The District's teaching certified employees and other employees whose positions require at least a college degree are provided pensions through KTRS – a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth of Kentucky. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2017

NOTE D – RETIREMENT PLANS, continued

Benefits provided – For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to 2% (service prior to July 1, 1983) and 2.5% (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after

July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3% to be used in their benefit calculation. Effective July 1, 2008, the system has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three highest annual salaries to compute the final average salary. KTRS also provides disability for vested employees at the rate of 60% of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees, and \$5,000 for retired or disabled employees.

Cost of living increases are 1.5% annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions- Contribution rates are established by KRS. Non-university members are required to contribute 12.105% of their salaries to the System. The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions of the amount 13.105% of salaries for local school district employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district members whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2017**

NOTE D - RETIREMENT PLANS, continued

Medical Insurance Plan

Plan description- In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding Policy - In order to fund the post-retirement healthcare benefit, six percent (6.0%) of the gross annual payroll of members before July 1, 2008 is contributed. Three percent (3.0%) is paid by member contributions and three-quarter percent (.75%) from state appropriation and two and one-quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Science Hill Independent School District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the CERS net pension liability	<u>\$ 1,137,294</u>
State's proportionate share of the net pension liability associated with the District	<u>\$17,247,828</u>

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2017

NOTE D - RETIREMENT PLANS, continued

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the District's portion was .023099 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$90,559 related to CERS.

The District reported approximate deferred outflows of resources and deferred inflows of resources related to pension expense from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 4,965	\$ -
Changes of assumptions	60,248	-
Net difference between projected and actual earning on pension plan investments	106,917	-
Changes in proportion and differences between District Contributions and proportionate share of contributions	51,767	14,106
District contributions subsequent to the measurement date	<u>95,518</u>	<u>-</u>
Total	<u>\$ 319,415</u>	<u>\$ 14,106</u>

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2017

NOTE D - RETIREMENT PLANS, continued

\$95,518 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. \$14,106 reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense in the year ended June 30, 2018.

Actuarial assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.25%	3.50%
Projected salary increases	4.00%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.50%	7.50%

For CERS, The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

For KTRS, mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of one year for females. The last experience study was performed in July 1, 2005 – June 30, 2010. The most recent experience study as of June 30, 2015, will be reflected in the June 30, 2017 GASB 67 report.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated August 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital markets assumptions developed by the investment consultant are intended for use over a ten-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2017

NOTE D – RETIREMENT PLANS, continued

timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For KTRS, the long-term expected rate of return on pension plan investments was determined using a long-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	<u>2.0%</u>	1.5%
Total	<u>100.%</u>	

Discount rate – For CERS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 4.20%. The projection of cash flows used to determine the discount rate assumed that plan member contribution rates, and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2040 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments through

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2017

NOTE D – RETIREMENT PLANS, continued

2039, and a municipal bond index rate of 3.01% was applied to all periods of projected benefit payments after 2039. The Single Equivalent Interest Rate that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate – The following table presents the District's net pension liability calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is one percentage point lower, or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.50%	7.50%	8.50%
District's proportionate share of net pension liability	1,417,252	1,137,294	897,313
KTRS	3.20%	4.2%	5.20%
District's proportionate share of net pension liability	-	-	-

Pension plan fiduciary net positions – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

NOTE E – CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantors' review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2017

NOTE F - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE G - LUNCHROOM ACCOUNT/COMMODITIES

The Lunchroom Account keeps a current monthly inventory of the school in the Food Service Director's office at the Science Hill Independent Board of Education. The Food Service Director has filed timely all required reports and requests for reimbursement.

NOTE H - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The District has obtained insurance for workers' compensation, errors and omissions, and general liability coverage.

Past and present members of Kentucky School Boards Insurance Trust (KSBIT) were required to pay additional, retroactive premiums to cover a \$60 million deficit in the Trust's general liability and workers' compensation pools. The District opted to pay their assessment in three annual installments, with the first payment being due in August 2014.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss.

NOTE I - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 is detailed on the following page.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

CAPITAL ASSET NOTE DISCLOSURE

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES				
Land and improvements	325,980	-	-	325,980
Buildings and improvements	6,856,654	5,850	-	6,862,504
Technology equipment	311,384	31,585	(13,984)	328,985
Vehicles	548,588	-	-	548,588
General equipment	200,145	-	-	200,145
Totals at historical cost	8,242,751	37,435	(13,984)	8,266,202
Less accumulated depreciation for:				
Land and improvements	214,790	12,384	-	227,174
Buildings and improvements	2,098,294	140,306	-	2,238,600
Technology equipment	306,428	15,585	(13,326)	308,687
Vehicles	388,096	18,317	-	406,413
General equipment	165,553	13,717	-	179,270
Total accumulated depreciation	3,173,161	200,309	(13,326)	3,360,144
GOVERNMENTAL ACTIVITIES CAPITAL NET	<u>\$ 5,069,590</u>	<u>\$ (162,874)</u>	<u>\$ (658)</u>	<u>\$ 4,906,058</u>
PROPRIETARY ACTIVITIES				
Buildings and improvements	243,882	-	-	243,882
Technology equipment	-	-	-	-
General equipment	104,263	-	-	104,263
Totals at historical cost	348,145	-	-	348,145
Less accumulated depreciation for:				
Buildings and improvements	114,624	4,878	-	119,502
Technology equipment	-	-	-	-
General equipment	83,437	2,849	-	86,286
Total accumulated depreciation	198,061	7,727	-	205,788
PROPRIETARY ACTIVITIES CAPITAL NET	<u>\$ 150,084</u>	<u>\$ (7,727)</u>	<u>\$ -</u>	<u>142,357</u>

DEPRECIATION EXPENSE CHARGES TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:

Instructional	\$ 88,697
Student support services	1,233
Staff support services	6,334
District administration	1,616
Business support services	-
Plant operation/maintenance	83,891
Student transportation	18,537
Total	<u>\$ 200,308</u>

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2017

NOTE J - ON BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky from items including retirement and insurance. The amounts received for the fiscal year ended June 30, 2017 was \$727,904. These payments were recorded as follows:

General Fund	\$ 699,189
Debt Service	1,213
Food Service Fund	<u>27,502</u>
Total	<u>\$ 727,904</u>

The expenditures for the on behalf payments are summarized in the following table:

On Behalf Payment Summary Report

Teacher's Retirement Systems	\$ 283,799
Health Insurance	422,820
Life Insurance	596
Administrative Fees	4,868
HRA/Dental/Vision	14,700
Less Federal Reimbursement	<u>(39,981)</u>
Total Payroll Related Payments	\$ 686,802
 KY Educational Network Services	 \$ 38,327
MUNIS Financial Mgt. Software & Services	1,096
McAfee Virus Software & Services	<u>466</u>
Total Technology Related Payments	\$ 39,889
 KISTA Capital Lease Payments	 \$ -
 SFCC Debt Service Payments	 \$ 1,213
Total On Behalf Payments	<u>\$ 727,904</u>

NOTE K - DEFICIT FUND BALANCES

The following funds ended the fiscal year with excess expenditures over revenues. The amounts were offset by transfers from other funds.

Debt service	\$ (271,777)
General fund	\$ (34,218)
Special revenue fund	\$ (6,030)

Supplemental Schedules

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF THE DISTRICT'S
PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY
Last Four Fiscal Years

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
District's proportion of the net pension liability	0.022076%	0.022076%	0.021167%	0.023099%
District's proportionate share of the net pension liability	\$ 810,000	\$ 716,000	\$ 910,078	\$ 1,137,294
District's covered employee payroll	\$ 504,940	\$ 492,071	\$ 495,931	\$ 511,338
District's share of the net pension liability as a percentage of its cover employee payroll	160.42%	145.51%	183.51%	222.42%
Plan Fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%	55.50%

Note:

The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to show information for 10 years. Additional years will be added as they become available.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF CONTRIBUTIONS TO CERS
Last Four Fiscal Years

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required employer contribution*	\$ 95,373	\$ 86,949	\$ 84,606	\$ 95,518
Contributions made for required employer contribution	\$ (95,373)	\$ (86,949)	\$ (84,606)	\$ (95,518)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 504,940	\$ 492,071	\$ 495,931	\$ 511,338
Employer contributions as a percentage of covered-employee payroll	18.89%	17.67%	17.06%	18.68%

Note:

The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to show information for 10 years. Additional years will be added as they become available.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CERS
June 30, 2017

Changes of benefit terms – There have been no changes in benefit terms during the period covered by the required supplementary information (2016).

Changes of assumptions –

The assumed investment rate of return decreased from 7.75% to 7.5%.

The assumed rate of inflation decrease from 3.5% to 3.25%.

The assumed rate of wage inflation decrease from 1.00% to .75%..

Payroll growth assumption was reduced from 4.5% to 4.00%.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females).

For disabled members, the mortality table used is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back four years for males) for the period after disability retirement.

Period covered by the required supplementary information – GASB Statement No. 68, "Accounting and Financial Reporting for Pensions", an amendment of GASB Statement No. 27 requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for four fiscal year and will expand this supplementary information in future financial statements to cover additional periods as they become available.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF THE DISTRICT'S
PROPORTIONATE SHARE OF THE KTRS NET PENSION LIABILITY
Last Four Fiscal Years

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
District's proportion of the net pension liability	0.000000%	0.000000%	0.000000%	0.000000%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -	\$ -
Commonwealth's proportionate share of the net pension liability associated with the District	\$ 13,394,481	\$ 12,648,700	\$ 14,162,771	\$ 17,247,828
District's covered employee payroll	\$ 1,929,009	\$ 1,929,009	\$ 1,862,837	\$ 1,833,139
District's share of the net pension liability as a percentage of its cover employee payroll	0.00%	0.00%	0.00%	0.00%
Plan Fiduciary net position as a percentage of the total pension liability	-	45.59%	42.49%	35.22%

Note:

The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to show information for 10 years. Additional years will be added as they become available.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF CONTRIBUTIONS TO KTRS
Last Four Fiscal Years

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required employer contribution*	\$ 27,798	\$ 40,249	\$ 52,595	\$ 53,715
Contributions made for required employer contribution	\$ (27,798)	\$ (40,249)	\$ (52,595)	\$ (53,715)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,929,008	\$ 1,862,837	\$ 1,833,139	\$ 1,867,753
Employer contributions as a percentage of covered-employee payroll	1.44%	2.16%	2.87%	2.88%

Note:

The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to show information for 10 years. Additional years will be added as they become available.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - KTRS
June 30, 2017

Changes of benefit terms – There have been no changes in benefit terms during the period covered by the required supplementary information (2016).

Changes of assumptions – The expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table.

Period covered by the required supplementary information – GASB Statement No. 68, “Accounting and Financial Reporting for Pensions”, an amendment of GASB Statement No. 27 requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for four fiscal year and will expand this supplementary information in future financial statements to cover additional periods as they become available.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR GENERAL FUND
for the year ended June 30, 2017**

	FINAL BUDGET	ACTUAL	VARIANCE W/FINAL BUDGET POSITIVE (NEGATIVE)
Revenues			
Taxes	\$ 756,570	\$ 749,508	\$ (7,062)
Earnings on investment	3,000	3,338	338
State sources	2,894,831	2,993,916	99,085
Federal sources	332,422	245,827	(86,595)
Other sources	31,000	73,586	42,586
Total revenues	4,017,823	4,066,175	48,352
Expenditures			
Instructional	2,324,338	2,202,478	121,860
Student support services	239,561	265,324	(25,763)
Staff support services	93,263	88,008	5,255
District administration	347,379	386,605	(39,226)
School administration	106,635	134,485	(27,850)
Business support services	133,257	133,182	75
Plant operation/maintenance	418,250	360,510	57,740
Student transportation	178,453	143,783	34,670
Debt service	330,850	35,775	295,075
Contingency	477,713	296,288	181,425
Total expenditures	4,649,699	4,046,438	603,261
Excess of revenues over expenditures	(631,876)	19,737	651,613
Other financing sources (uses)			
Operating transfers in	338,412	354,502	16,090
Operating transfers out	(329,412)	(341,512)	(12,100)
Total other financing sources (uses)	9,000	12,990	3,990
Net increase (decrease) in fund balance	(622,876)	32,727	637,588
Fund balance July 1, 2016	614,300	789,945	175,645
Fund balance June 30, 2017	\$ (8,576)	\$ 822,672	\$ 831,248

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON - SPECIAL REVENUE
for the year ended June 30, 2017**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE W/FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES			
State sources	\$ 234,400	\$ 235,764	\$ 1,364
Federal sources	<u>306,602</u>	<u>218,571</u>	<u>(88,031)</u>
Total revenues	541,002	454,335	(86,667)
EXPENDITURES			
Instructional	337,369	279,645	57,724
Student support services	109,292	73,357	35,935
Staff support services	1,019	1,043	(24)
Business support services	11,489	11,594	(105)
Student transportation	49,128	57,676	(8,548)
Community services	<u>40,705</u>	<u>40,745</u>	<u>(40)</u>
Total expenditures	<u>549,002</u>	<u>464,060</u>	<u>84,942</u>
Excess (deficit) of revenues over expenditures	(8,000)	(9,725)	(1,725)
Other financing sources (uses):			
Operating transfers out	8,000	9,725	(1,725)
Operating transfers in	<u> </u>	<u> </u>	<u> </u>
Total other financing sources (uses)	<u>8,000</u>	<u>9,725</u>	<u> </u>
Net change in fund balance	<u> </u>	<u> </u>	<u> </u>
Fund balance July 1, 2014	<u> </u>	<u> </u>	<u> </u>
Fund balance June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
Science Hill, Kentucky

STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
SCHOOL ACTIVITY FUNDS
June 30, 2017

	Beginning Cash July 1, 2016	Receipts	Disbursements	Ending Cash June 30, 2017
8th Grade	-	10,466	10,452	14
Academic Team	100	301	325	76
Archery	3,856	10,307	11,209	2,954
Baseball Boosters	208	750		958
Beta	730	337	417	650
Boys and girls basketball	4,439	7,895	8,419	3,915
Boys Basketball Boosters	518	3,300	3,561	257
Cheerleaders	20	4,112	3,112	1,020
Dance	122	-	22	100
Drama and annuals	2,161	6,358	5,357	3,162
General fund	3,355	10,091	13,444	2
Girls Basketball Boosters	109	2,902	2,654	357
Music	410	339	252	497
Pepsi	1,915	566	360	2,121
Softball Boosters	275	4,327	4,585	17
Student Council	154	108	135	127
Field trips	-	7,547	7,494	53
Soccer Boosters	-	3,483	3,238	245
Golf	1,352	5,552	3,337	3,567
		78,741	78,373	
Inter-fund transfers	-	-	-	-
Totals	\$ 19,724	\$ 78,741	\$ 78,373	\$ 20,092

BARRY D. DAULTON, CPA, PSC
POST OFFICE BOX 1424
SOMERSET, KENTUCKY 42502
(606) 679-9344

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

Kentucky State Committee for School District Audits
Members of the Board of Education
Science Hill Independent Schools
Science Hill, Kentucky 42553

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School Districts Audits Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Science Hill Independent Schools as of and for the year ended June 30, 2017, which collectively comprise the District's basic financial statements and have issued my report thereon dated November 1, 2017.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. In addition, the results of my tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Kentucky Public School Districts' Audit Contract and Requirements. There were additional matters communicated to the auditee in the management letter.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Barry D. Daulton, CPA, PSC

Somerset, Kentucky
November 1, 2017

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT SUMMARY
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017**

There are no prior audit findings.

Barry D. Daulton, CPA, PSC
423 East Mount Vernon Street
P.O. Box 1424
Somerset, Kentucky 42502
(606) 679-9344

MANAGEMENT LETTER

November 1, 2017
Superintendent and Members of the Board of Education
Science Hill Independent School District
Science Hill, Kentucky 42553

In planning and performing my audit of the financial statements of Science Hill Independent School District for the year ended June 30, 2017, I considered the District's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

Current Year Conditions

There are no prior year management comments.

1. During testing it was noted that activity funds are handwritten with no automation. I recommend exploring activity fund software and computerizing the receipts and disbursements.
2. During testing, we noted no evidence of fund raising approval in the activity fund.
3. During testing, many instances of absence of purchase orders (PO) or PO dated after invoice. I suggest PO system be used as intended, as controls are not effective, if not properly followed.
4. During testing, it was noted that activity fund checks were not sequential.
5. During testing at the general fund level, it was noted purchase orders were not used, many standard invoices had no back-up documentation, such as invoices or statements, and meals were reimbursed even when no overnight stay and some employees are not frugal when making meal purchases at the district's expense. I suggest, again, that PO's be used and payments not be made without proper documentation to back it up. The district should consider setting limits on meal reimbursements and consider only reimbursing meals when overnight stay is required as is customary with most other non-profit organizations.
6. During testing at the general fund level, it was noted sales tax was also paid because many times employees were reimbursed for purchases they made personally. If an employee, is making a purchase to be reimbursed by the district, district finance personnel should provide that employee with an approved PO and be sure the vendor has the sales tax-exempt certificate on file to prevent the unnecessary expense of sales tax.
7. During testing at the general fund level, it was also noted late fees were paid. District finance personnel should make sure all employees are reporting expenses timely and timely payments should be made to prevent the unnecessary expense of late fees.

I have reported on the District's internal control in my report dated November 1, 2017. This letter does not affect my report dated November 1, 2017, on the financial statements of Science Hill Independent School District. I wish to thank the personnel for their support and assistance during the audit.

This report is intended solely for the information and use of the Board and management of Science Hill Independent School District.

Sincerely,

Barry D. Daulton, CPA, PSC